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Economics Research Associates



FINAL REPORT

**A MARKET ANALYSIS AND
ECONOMIC DEVELOPMENT
STRATEGY STUDY**

PREPARED FOR

THE CITY OF SAN CARLOS

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UNIVERSITY OF CALIFORNIA

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INTRODUCTION

The city of San Carlos retained Economics Research Associates (ERA) in January of 1988 to prepare a market analysis and economic development strategy study for that community. Prepared during the first four months of 1988, this report evaluates the long term market potential for retail, hotel, office and industrial development within the city of San Carlos. This report then suggests a series of economic development strategies which are designed to rejuvenate Downtown San Carlos as a retail area and strengthen the City's fiscal position over time.

William W. Lee, ERA Senior Vice President, served as project manager, chief analyst and primary author for this assignment. Donna L. Ho, ERA Associate, provided assistance in field research; Lauren O'Brien of ERA conducted the survey of downtown businesses. The City staff, the Executive Director of the San Carlos Chamber of Commerce and other members of the local community provided invaluable assistance.

Section I

CONCLUSIONS AND RECOMMENDATIONS

The conclusions from ERA's market analysis and the resulting economic development policy recommendations are presented in this first report section. The supporting research and analysis are in the succeeding sections.

MARKET ANALYSIS CONCLUSIONS

ERA examined the future market opportunities in San Carlos by land use, and the report conclusions are discussed by land use.

Retail

Retailing in San Carlos has exhibited considerable weakness in recent years. From 1980 to 1986, despite rapidly increasing household incomes in the community, taxable retail sales in San Carlos declined from 4.7 percent to 3.5 percent of total San Mateo County taxable sales. During 1986 San Carlos' per capita taxable retail sales was only 61 percent of the average of seven Mid-Peninsula cities. According to the ERA survey specifically performed for this study, San Carlos households spend 35 percent of their retail dollars in San Carlos and 65 percent in other communities such as San Mateo, Redwood City and Palo Alto.

Although weak in the general merchandise, apparel, speciality shop and automobile dealership sectors, San Carlos does have several strengths:

- o San Carlos' most significant strength is providing convenience goods, such as groceries, drugs, liquor and sundries, to a population of increasing affluence. Downtown San Carlos, because it is on the west side of El Camino Real and the Southern Pacific railroad tracks and therefore offers more convenient access to many of the residential neighborhoods, is in the best location to take advantage of

this strength. However, due to the lack of a development site of ample size, the new Lucky's is being built on the east side in an area traditionally viewed as the industrial area. Even with the construction of Lucky's on the east side, ERA believes that ample market support exists for the renovation of Downtown San Carlos provided that the City, the Redevelopment Agency, the property owners and the business operators are willing to implement the policy measures recommended and make the necessary investments.

- o The El Camino Real corridor captures restaurant and service station sales from motorists driving through San Carlos, and this capture partially offsets the dollars spent by local residents in neighboring communities.
- o With completion of Home Depot, the industrial area of San Carlos will have over 800,000 square feet of retail space in the furniture, appliance, building materials and hardware sectors. This concentration of retail space clearly serves a regional market.

Hotels

The Mid-Peninsula hotel market, because of the anticipated addition of 1,600 new rooms over the next two years, is expected to have an over supply of 450 to 500 rooms by 1990. Due to demand growth, resulting from increased local business activity and volume expansion at San Francisco International Airport, the market is projected to reach equilibrium by 1995 and to need 1,100 to 1,200 additional rooms by the year 2000. By making sites in the vicinity of the Holly Street interchange available for hotel development, San Carlos clearly has an opportunity to increase its share of the Mid-Peninsula hotel market and resulting transient occupancy tax receipts. The question is how quickly.

It appears to ERA that the excess supply during the next two to four years will be at the top end of the market and opportunity may still exist in the near future for new development which appeal to the budget conscious client. The opportunity exists because possibly as much as one-sixth of the current Mid Peninsula inventory of over 5,900 rooms is in properties which are either dated, poorly located or too small to be operated efficiently.

Industrial

The steady economic growth of San Francisco to the north and the rapid emergence of Silicon Valley to the south have increased the demand pressure in San Mateo County. This demand pressure has pushed up the price of housing and land in San Carlos. As a consequence, traditional manufacturers are being forced to move to lower land and labor cost locations to remain competitive. The land or buildings formerly occupied by these out migrants will be upgraded or reused by either higher technology and higher value manufacturers or by commercial uses which serve a Mid Peninsula population of growing affluence.

Office

With a total projected demand of perhaps 250,000 square feet between 1988 and 2005, the development of office space is not expected to be a major component of San Carlos' future economic growth. However, if the office development which is coming to San Carlos can be induced into the downtown, the spending by office employees would help revitalize retailing in the downtown. The key to attracting more office development into the downtown is the implementation of more flexible parking requirements for new development or intensification of use by the City.

ECONOMIC DEVELOPMENT STRATEGY RECOMMENDATIONS

Looking beyond Lucky's and Home Depot, which are in the development permit process, ERA is of the opinion that the next best retail development opportunity in San Carlos is the renovation of the downtown area.

Revitalization Strategies for Downtown San Carlos

Given its strong location relative to the residential neighborhoods and the rapidly increasing affluence of these neighborhoods, the retail potential for Downtown San Carlos is for it to become a more contemporary convenience shopping area for local and nearby residents. The emphasis of the downtown should be in groceries, drugs, liquor, restaurants and some apparel items. This downtown should not strive to become a specialty shopping area offering trendy boutiques because such a direction runs counter to the area's market strength. For the downtown to transition from what it is today to what it could be, ERA recommends the following steps:

- o The City should alter its parking requirements for new development in the downtown from the current citywide standards to 3.3 to 3.5 spaces per 1,000 square feet of floor area for office, retail and restaurant uses. In addition, the City should allow the new project to satisfy this new parking requirement either by providing the parking on-site, within 500 to 1,000 feet of the site or by paying a Parking-In-Lieu fee. This fee should be set at approximately one half of the cost of actually producing a parking space, and ERA estimates that to be \$6,500 per space. The revenue collected from this fee should be augmented by Redevelopment Agency tax increment revenues and set aside for the construction of garages over existing municipal lots as the need arises.

- o The City should fund a downtown planning and urban design study which does the following: evaluates if the current parking resource can be utilized more efficiently, develops concept plans for future parking garages over municipal surface lots, identifies properties which may need to be acquired to facilitate garage construction, recommends how linkages between the parking areas and Laurel Street can be made more effective and more attractive, recommends how signs for municipal lots may be improved and develops guidelines for awnings and store signs for Laurel Street for current retailers to conform to on a voluntary basis and possibly for new businesses to conform to on a mandatory basis.
- o The City should then undertake the construction to make the parking lots more efficient, to improve the walkways between the parking lots and Laurel Street and to repair the sidewalks along Laurel Street where appropriate.
- o The San Carlos Redevelopment Agency should use its redevelopment powers to create two or three very strategic retail development opportunities in the downtown. The Agency should target to have a new and larger drug store (probably between 15,000 and 20,000 square feet), and one or two general merchandise or apparel stores (again probably in the 15,000 to 20,000 square feet vicinity). In addition to the drug store, the types of stores which would very likely succeed in a renovated Downtown San Carlos include McCaulos (apparel and general merchandise) and Such A Business (furnishings and apparel for young children).

Once most of the above have been accomplished, we would expect to see new tenants appear in the downtown. The new tenants which are likely to be successful include several new restaurants and coffee shops, a new delicatessen, a new bakery, a coffee and tea shop, a pasta shop, a wine and cheese shop and other similar shops. Although parking

is not a problem currently, by the time many of these tenants are on Laurel Street the City or Redevelopment Agency will need to deck at least one of its downtown parking lots. We project that the new parking garage will be needed around 1992 or 1993.

Strategies For Other Parts Of The City

If the City adopts a strategy to revitalize its downtown, the policies which it adopts for the other parts of the community should complement its downtown strategy. ERA therefore recommends the following:

South and Central Laurel Street

Given the finite amount of city resources and limited market depth, ERA suggests that the city of San Carlos concentrate its efforts in the downtown over the next five years. As downtown becomes revitalized, demand will spill over into the central and southern sections of Laurel Street. Like the downtown, commercial development along these portions of Laurel Street will be targeted to serve the local resident market.

Assuming that the downtown is substantially renovated by 1993 or 1995, the City should then target the central and southern portions of Laurel Street for revitalization. If the revitalization program is implemented in tandem with construction of the new Brittan Avenue underpass, it will likely be successful. A detailed analysis of revitalization strategies for these portions of Laurel Street should be undertaken in about 1993.

Industrial Area

Change in the industrial area of San Carlos is inevitable, and ERA suggests the following guidelines:

- o Considering the city's need for future sales taxes and its interest in revitalizing the downtown, San Carlos should

encourage the development of region serving retail uses in its industrial area but limit such uses to a minimum size of 25,000 to 30,000 square feet per establishment.

- o San Carlos should accommodate, if not encourage, the transition of this area to office use.
- o The city should be prepared to re-zone the area around the Holly Street interchange from industrial to commercial in order to facilitate hotel or motel development. The transient occupancy tax flowing from such development will be an important source of future General Fund revenue.

The El Camino Corridor

The El Camino Real Corridor through San Carlos is not exceptionally attractive nor distinguished. City investment to upgrade the appearance of this corridor will provide long-term return in the form of greater community identity and enhanced civic pride. Viewed from a cost versus financial return perspective, however, investment in the revitalization of the downtown commercial area should clearly have priority.

Citywide Issues

ERA also has two suggestions which are of citywide interest:

- o Once downtown renovation is clearly moving forward, the city should consider lowering its parking requirements for all areas outside of the downtown slightly to 3.5 or 3.6 spaces per 1,000 square feet for office development and to 4.5 spaces per 1,000 square feet for retail development. It should definitely lower its parking requirement for restaurant development from the current 10 spaces per 1,000 square feet to 5.0 or 6.0 per 1,000 square feet. We believe

the high current requirement has inhibited new restaurant construction in San Carlos.

- o If interest rates remain favorable for new construction, the city should consider adding a development coordinator to its staff to help handle the expected new activity.

If most of the above are implemented, ERA expects San Carlos to be a substantially different place in ten years. Its downtown will be much more responsive to the interests and needs of its citizens, and the City will be in a stronger financial position to provide a full range of services to its residents.

Section II

SAN CARLOS AND THE MID-PENINSULA HOTEL MARKET

THE CURRENT SITUATION

The hotel/motel market in which properties located in San Carlos compete is a subregional market. This Mid-Peninsula market extends along the Highway 101 corridor from Burlingame in the north through San Mateo, Foster City, Belmont, San Carlos and Redwood City to Menlo Park in the south. Demand for over night accommodations in this market is generated from primarily two sources: activity related to the San Francisco International Airport and business in this part of the San Francisco Peninsula.

Historical Performance

Because of its location adjacent to the International Airport, the city of Burlingame has dominated this market in recent years. As shown in Tables II-1 and II-2, Burlingame has captured between 50 and 60 percent of this Mid-Peninsula hotel revenue since 1980. In contrast, the city of San Carlos has been capturing only around one percent of this revenue. Even though San Carlos has one of ten interchanges in this portion of the Highway 101 corridor, its market share is only a fraction of that of cities like Belmont, which has four to five percent, and Menlo Park, which has eight to nine percent. The city of San Carlos has not been getting its appropriate share of transient occupancy tax revenue, an important source of General Fund revenue coveted by virtually every city.

Current Rates and Occupancy

ERA contacted each property in this Mid-Peninsula market in order to determine the age of the inventory, the room rates, the occupancy rates and other characteristics of the facilities in this market. This investigation indicated that nearly half of the inventory, the highest room rates and the highest occupancy rates are in Burlingame, because of

TABLE II-1
MARKET AREA HOTEL/MOTEL REVENUES

	1980- 1981	1981- 1982	1982- 1983	1983- 1984	1984- 1985	1985- 1986 *	1986- 1987
San Carlos	311,950	441,017	451,050	507,433	631,050	576,600	616,433
Belmont	1,540,000	1,913,420	2,693,690	2,296,770	2,938,200	2,938,960	2,768,370
Burlingame	15,576,963	17,402,438	19,881,663	27,608,475	32,256,338	33,034,300	44,561,888
Foster City	0	0	0	0	0	664,588 *	4,347,800
Menlo Park	608,988	753,575	776,063	1,737,088	5,359,363	5,877,313	6,124,025
Redwood City	2,509,338	2,816,050	3,084,713	3,096,063	4,367,400	4,258,450	4,372,563
San Mateo	9,917,950	11,805,813	12,009,188	12,997,563	14,628,025	14,220,200	13,115,038
Total 7 Cities	30,465,189	35,132,313	38,896,367	48,243,392	60,180,376	61,570,411 *	75,906,117

* Figure includes only the last quarter for Foster City, when Foster City first began collecting taxes.

Source: Annual Report of Financial Transactions, State Controller; and Economics Research Associates.

TABLE II-2
HOTEL/MOTEL REVENUE PERCENTAGE DISTRIBUTION

	1980- 1981	1981- 1982	1982- 1983	1983- 1984	1984- 1985	1985- 1986 *	1986- 1987
San Carlos	1.0%	1.3%	1.2%	1.1%	1.0%	0.9%	0.8%
Belmont	5.1%	5.4%	6.9%	4.8%	4.9%	4.8%	3.6%
Burlingame	51.1%	49.5%	51.1%	57.2%	53.6%	53.7%	58.7%
Foster City	0.0%	0.0%	0.0%	0.0%	0.0%	1.1%	5.7%
Menlo Park	2.0%	2.1%	2.0%	3.6%	8.9%	9.5%	8.1%
Redwood City	8.2%	8.0%	7.9%	6.4%	7.3%	6.9%	5.8%
San Mateo	32.6%	33.6%	30.9%	26.9%	24.3%	23.1%	17.3%
Total 7 Cities	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Annual Report of Financial Transactions, State Controller; and Economics Research Associates.

proximity to San Francisco International Airport. The occupancy rates and room rates tend to drop as distance from the Airport increases (see Tables II-3 through II-9 and the summary in II-10).

This market had a total of 5,916 rooms and an overall occupancy rate of 68.9 percent. Considering that 2,077 rooms or 35 percent of this inventory has been completed in 1986 or later, the occupancy rate is surprisingly healthy. Within this market the inventory can be more or less segregated into two classes, the older properties mostly built along El Camino Real which tend to have rates in the \$30 to \$60 range and the newer properties oriented to Highway 101 which tend to have rates above \$70. Thirty three percent of the current inventory was built before 1970. Twenty six percent of the inventory had quoted single room rates below \$60 per night, most of these rates were well below \$60 per night. Twelve percent of the inventory is in properties of 50 rooms or less. Clearly, a number of the older facilities have been well maintained or have been renovated and are very competitive and a segment of the market prefers lower priced rooms in smaller properties; however, a substantial portion of this inventory, probably around 1,000 rooms, is not very competitive inventory because of location, age or lack of size to permit efficient operation. As competition intensifies, these properties will either be converted to longer term rental housing or will demolished for redevelopment to more economic uses.

New Project Planned

ERA's research indicates that competition is going to intensify. Between 2,500 and 2,600 additional rooms are either under construction or planned in eight projects in this Mid-Peninsula market (see Table II-12). These projects range widely in terms of both likelihood and competitive impact. The highest impact project is the 794 room Hyatt Regency which will be completed in Burlingame in the summer of 1988.

Table II-3

HOTEL INVENTORY IN BURLINGAME

Map Key	Hotel	Location	Year Built	Number of Rooms	Number of Floors	Room Rates		FY 1987-88 Occupancy Rate	Meeting Rooms	# of People Meeting Rooms Accommodate
						Single	Double			
	Burlingame Hotel	287 Lorton Ave.	1920	44	3	\$35	\$35	90%	0	0
	Ramada Inn	1250 Bayshore Hwy.	1963	144	3	\$79	\$87	70% ^{1/}	2	60
	Amfac Hotel	1380 Bayshore Hwy.	1973	329	10	\$85	\$85	65%	10	1,181
	Vagabond Motor Hotel	1640 Bayshore Hwy.	1974	91	3	\$62	\$65	80%	0	0
	Sheraton Inn	1177 Airport Blvd.	1976	305	10	\$79-99	\$89-109	70% ^{1/}	12	400
	Days Inn	777 Airport Blvd.	1981	199	5	\$65	\$70	86%	6	300
	Holiday Inn Crowne Plaza	600 Airport Blvd.	1984	426	15	\$86	\$92	75%	6	905
	Hotel Ibis	835 Airport Blvd.	1986	303	8	\$74	\$84	65%	3	210
	Embassy Suites	150 Anza Blvd.	1986	344	9	\$119	\$129	70% ^{1/}	8	400
	SF Airport Marriott	1800 Bayshore Hwy.	1986	689	11	\$125	\$125	79%	10	1,800
	TOTAL			2,874				73.5%		

^{1/} Estimate.

Source: Economics Research Associates

Table II-4

HOTEL INVENTORY IN SAN MATEO

Map Key	Hotel	Location	Year Built	Number of Rooms	Number of Floors	Room Rates		FY 1987-88 Occupancy Rate	Meeting Rooms	# of People Meeting Rooms Accommodate
						Single	Double			
	Hotel Benjamin Franklin	44 East Third Street	1928	100	8	\$65	\$80	98%	1	175
	San Mateo Motel	801 S. Bayshore	1938	33	1	\$29	\$36	65%	0	0
	Motel Orleans	350 N. Bayshore	1948	185	2	\$32	\$32	60%	0	0
	Villa Hotel	4000 S. El Camino Real	1956	304	4	\$48	\$58	70%		400
	Royal Lodge Motel	140 N. Bayshore Blvd.	1957	50	3	\$33	\$38	70% ^{1/}	0	0
	Hollywood Hotel	480 Bayshore Blvd.	1958	39	1	\$30	\$38	50%	0	0
	Hillsdale Inn	477 East Hillsdale	1962	89	2	\$35	\$41	70% ^{1/}	2	
	Dunfey Hotel	1770 S. Amphlett	1970	270	3	\$85	\$95	72%	24	2,000
	Los Prados Inn Travelodge	2940 S. Norfolk	1972	113	2/3	\$52	\$52	85%	3	115
	TOTAL			1,183				71.9%		

^{1/}Estimated.

Source: Economics Research Associates

Table II-5

HOTEL INVENTORY IN FOSTER CITY

Map Key	Hotel	Location	Year Built	Number of Rooms	Number of Floors	Room Rates		FY 1987-88 Occupancy Rate	Meeting Rooms	# of People Meeting Rooms Accommodate
						Single	Double			
	Holiday Inn -- Foster City	1221 Chess Drive	1986	238	5	\$85	\$97	75%	--	1,000
	Courtyard Marriott	550 Shell Blvd.	9/87	147	2/3	\$68	\$76	30% ^{1/}	2	50
	TOTAL			385				57.8%		

^{1/}Open 3 months.

Source: Economics Research Associates

Table II-6

HOTEL INVENTORY IN BELMONT

<u>Map Key</u>	<u>Hotel</u>	<u>Location</u>	<u>Year Built</u>	<u>Number of Rooms</u>	<u>Number of Floors</u>	<u>Room Rates</u>		<u>FY 1987-88 Occupancy Rate</u>	<u>Meeting Rooms</u>	<u># of People Meeting Rooms Accommodate</u>
						<u>Single</u>	<u>Double</u>			
	Bel Mateo Motel	803 Belmont Ave.	1954	32	3	\$35	\$35	70%	0	0
	Kingway Motel	560 El Camino Real	1958	16	1	\$32	\$35	65%	0	0
	Hillside Motel	630 El Camino Real	1962	9	1	\$28	\$30	65% ^{1/}	0	0
	Belmont Palms Motel	700 El Camino Real	1963	14	1	\$30	\$37	50%	0	0
	Holiday Inn -- Belmont	1101 Shoreway Road	1969	188	3	\$70	\$80	63%	6	275
	Casa Belmont Motel	1650 El Camino Real	N.A.	30	1	\$30	\$35	75%	0	0
	TOTAL			289				64.6%		

^{1/}Estimate.

Source: Economics Research Associates

Table II-7

HOTEL INVENTORY IN SAN CARLOS

<u>Map Key</u>	<u>Hotel</u>	<u>Location</u>	<u>Year Built</u>	<u>Number of Rooms</u>	<u>Number of Floors</u>	<u>Room Rates</u>		FY 1987-88 <u>Occupancy Rate</u>	<u>Meeting Rooms</u>	<u># of People Meeting Rooms Accommodate</u>
						<u>Single</u>	<u>Double</u>			
	Travel Lodge	26 El Camino Real	1958	29	2	\$42	\$46	63%	0	0
	Travel Inn Motel	950 El Camino Real	1958	33	2	\$32	\$34	65%	0	0
	San Carlos Inn	1562 El Camino Real	1986	32	2	\$40	\$46	80%		
	TOTAL			94				69.5%		

Source: Economics Research Associates

Table II-8

HOTEL INVENTORY IN REDWOOD CITY

Map Key	Hotel	Location	Year Built	Number of Rooms	Number of Floors	Room Rates		FY 1987-88 Occupancy Rate	Meeting Rooms	# of People Meeting Rooms Accommodate
						Single	Double			
	Garden Motel	1690 Broadway	1950	17	1	\$30	\$30	50%	0	0
	Continental Garden Motel	2650 El Camino Real	1955	72	2	\$40	\$42	40%	0	0
	Redwood Rancho Motel	2834 El Camino Real	1958	28	2	\$34	\$40	94%	0	0
	Redwood Townhouse	1090 El Camino Real	1960	35	2	\$34	\$34	50%	0	0
	Varlisty Motel	25 5th Avenue	1960	30	2	\$35	\$47	60% ^{1/}	0	0
	Howard Johnson Motor Lodge	485 Veterans Blvd.	1961	125	2	\$62	\$62	60% ^{1/}	4	300
	Firestone Lodge	2175 S. El Camino Real	1962	46	2	\$30	\$40	85%	1	50
	Best Western Sundial	316 El Camino Real	1968	26	2	\$42	\$46	60% ^{1/}	0	0
	Capri Motel	2380 El Camino Real	1968	50	2	\$29	\$32	75%	0	0
	Co-Z-8 Motel	2610 El Camino Real	1968	75	2	\$40	\$42	60% ^{1/}	0	0
	Hotel Sobitel	223 Twin Dolphin	6/87	324	9	\$85	\$85	40%	20	750
	TOTAL			828				53.3%		

^{1/}Estimate.

Source: Economics Research Associates

Table II-9

HOTEL INVENTORY IN MENLO PARK

Map Key	Hotel	Location	Year Built	Number of Rooms	Number of Floors	Room Rates		FY 1987-88 Occupancy Rate	Meeting Rooms	# of People Meeting Rooms Accommodate
						Single	Double			
	Red Cottage Motel	1704 El Camino Real	1959	30	1	\$47	\$58	80%	0	0
	Mermaid Inn Motel	727 El Camino Real	1965	39	2	\$42	\$52	89%	0	0
	Menlo Motor Lodge	1315 El Camino Real	1968	30	2	\$40	\$46	70% ^{1/}	0	0
	Stanford Park Hotel	100 El Camino Real	1984	<u>164</u>	3	\$120-140	\$130-150	<u>70%^{1/}</u>	3	335
	TOTAL			263				74%		

^{1/} Estimate.

Source: Economics Research Associates

Table II-10

HOTELS IN THE MID-PENINSULA MARKET

	<u>Total Rooms</u>	<u>Percent of Total</u>	<u>Range of Room Rates</u>		<u>Occupancy Rate</u>	<u>Hotels With Conference Facilities</u>
			<u>Single</u>	<u>Double</u>		
San Carlos	94	1.6%	\$32-42	\$34-46	69.5%	0
Belmont	289	4.9	\$28-70	\$30-80	64.6	1
Burlingame	2,874	48.6	\$35-125	\$35-129	73.5	8
Foster City	385	6.5	\$68-85	\$76-97	57.8	2
Menlo Park	263	4.4	\$40-140	\$46-150	74.0	1
Redwood City	828	14.0	\$29-85	\$30-85	53.3	3
San Mateo	<u>1,183</u>	<u>20.0</u>	<u>\$29-85</u>	<u>\$32-95</u>	<u>71.9</u>	<u>5</u>
TOTAL	5,916	100.0%			68.9%	20

Source: Economics Research Associates

Table II-11
MID PENINSULA HOTELS UNDER CONSTRUCTION
APPROVED OR PROPOSED

<u>Hotel</u>	<u>Location</u>	<u>Status</u>	<u>Estimated Completion</u>	<u>Number of Rooms</u>	<u>Number of Floors</u>	<u>Room Rates</u>	<u>Comments</u>
Hyatt Regency	1333 Bayshore Hwy Burlingame	Under construction	7/88	794	10	Single: \$120-\$125 Double: \$135-\$140	4 - 5 acre lots, 25 mtg. rooms, 3 restaurants, pool, 2 lounges, jacuzzi, sauna, health center
Ramada Inn	Mariner Highway Blvd. near Highway 92 San Mateo	Was approved. Time elapsed; must reapply	Summer '89	154	4	Single: \$80 Double: \$90	Conference rooms to seat 134, restaurant and lounge
El Camino Hotel	1818 El Camino Real Redwood City	Submitted prelimi- nary design 1/15/88. Not scheduled for hearing yet. Must have EIR.	Fall' 89	54	3	N/A	Currently an A-1 motel with 22 rooms, 30-40 yrs old. A-1 motel is recessed back off the street. New hotel will have pool, patio, sauna, game room
Hilton/Clubtel	Metro Center Blvd. between Tower Lane and Vintage Drive Foster City	Proposed; in design review	Late '90 or Early '91	200	12	Single: \$100 Double: \$110	Suite type hotel on 4.2 acres; includes pool and 70,000 sq. ft. athletic club
Radisson Plaza Hotel	350 Airport Blvd. Burlingame	Approved but placed on back burner	Unknown	559	8	N/A	Trouble financing.
Suite type hotel	Ralston and Highway 101, Belmont	Under negotiations	Late '90 or Early '91	250	9-10	N/A	Meeting rooms, restau- rant, pool.
Westin Hotel	Sand Hill and Highway 280 Menlo Park	Proposed; in EIR process	1991	387	3	N/A	Conference hotel, 21 ac downhill site, 13 mtg. rooms totaling 21,000 sq. ft., 2 restaurants, fitness center, tennis courts, 2 pools
Jointly owned by San Carlos & Belmont Municipal Sewage	Shoreway Road East of Highway 101 near San Carlos Airport, San Carlos	Preliminary stages Discussion with motel companies but no agreement made	1991	175	2-3	N/A	Total parcel is 5.7 ac for motel and restaurant 2.7 ac for economy type motel of approximately 108,900 sq. ft.
TOTAL				2,573			

Source: Economics Research Associates

Table II-12

ANNUAL PASSENGER VOLUME
SAN FRANCISCO
INTERNATIONAL AIRPORT
1977-1987

1977-78	19,838,697
1978-79	22,471,605
1979-80	22,660,085
1980-81	20,381,369
1981-82	20,538,597
1982-83	21,736,658
1983-84	23,907,368
1984-85	24,554,305
1985-86	26,060,566
1986-87	29,345,957
Change 1977-1987	9,507,260
Percent Change 1977-1987	47.9%

Source: San Francisco International Airport;
and Economics Research Associates

Because of the expected impact of the Hyatt Regency on an already fairly competitive market, the proposed and approved Radisson Plaza Hotel, also in Burlingame, and one or two other proposed projects will most likely not be able to secure the financing necessary to proceed. In addition to the Hyatt Regency, ERA expects approximately 800 new hotel or motel rooms to be completed in this Mid-Peninsula market between 1988 and the end of 1995.

SUPPLY DEMAND BALANCE AND SAN CARLOS POTENTIAL

The growth in hotel/motel demand in this Mid-Peninsula market is dependent largely upon the increase in passenger volume at San Francisco International Airport and upon business volume growth in this portion of San Mateo County. Passenger volume at the Airport has increased nearly 50 percent over the past ten years, the annual rate computes to about 4.0 percent per year (see Table II-12). ERA expects this 4.0 percent annual rate of increase to continue to 1995, from 1995 to 2005 the rate is expected to drop to 3.5 percent per year. Peak period capacity constraints at San Francisco International is expected to divert a portion of the future passenger volume growth to the other airports in the region.

In terms of expected Mid-Peninsula business activity growth, we used employment projections prepared by the Association of Bay Area Governments (ABAG) as the indicator. As shown in Table II-13, total employment in the seven Mid-Peninsula communities is projected to grow from 180,920 in 1988 to 216,500 by 2005. This amounts to about a 19.7 percent increase over a seventeen year period, or just about one percent per year. The scarcity of land for major housing development, and the resulting high housing cost in this Mid Peninsula area, limit the rate of employment growth.

Table II-13

EMPLOYMENT GROWTH IN MID PENINSULA COMMUNITIES

Community	1988	1990	1995	2000	2005
Belmont	12,480	13,000	13,700	14,100	14,600
Burlingame	23,920	24,600	25,500	24,900	24,500
Foster City	8,700	10,300	12,700	13,400	14,400
Menlo Park	27,980	28,900	31,000	31,700	32,500
Redwood City	40,480	43,400	48,700	52,200	54,300
San Carlos	17,720	18,200	18,900	18,500	19,100
San Mateo	49,640	52,000	54,600	56,600	57,100
Total	180,920	190,400	205,100	211,400	216,500
Percentage Inc Over 1988	--	5.2%	13.4%	16.8%	19.7%

Source: ABAG Projections 87 and ERA

Demand Versus Supply

ERA uses a 70 percent overall occupancy rate as the market equilibrium occupancy rate. Given that current demand is 68.9 percent for 5,916, the current market is able to support approximately 5,800 rooms at the 70 percent equilibrium occupancy rate. Based upon experience, ERA estimates that the employees in these seven cities generate on average 4.5 room nights each; this translates into 3,186 rooms supported by Mid-Peninsula business activity. The balance of the demand, or 2,614 rooms, is assumed to be Airport related demand.

As shown in Table II-14, employment related demand is only projected to increase by approximately 20 percent from 3,186 rooms in 1988 to 3,813 rooms in 2005. Airport related demand is projected to grow at 4.0 percent per year until 1995 and 3.5 percent per year beyond that. Total Mid-Peninsula demand is expected to grow from 5,800 rooms in 1988 to 8,665 rooms by 2005.

The supply side is also expected to change substantially. Including the new Hyatt Regency, we expect 1,600 new rooms to be added to the current inventory of 5,916 rooms by 1995. However, ERA also expects over 1,000 of the units in the current inventory to be removed over the next seventeen years. Many of the weaker properties will be removed in the 1990s when the competitive impact of the major new construction during the late 1980s and early 1990s takes its toll. Taking both the new construction and removals into account, the total mid-Peninsula inventory is projected to increase to 6,649 by 1990 and 7,049 by 1995.

Largely because of the addition of the Hyatt Regency with 794 rooms, the occupancy rate in the Mid-Peninsula market is expected to drop from just below 69 percent currently to around 65 percent by 1990. Although new projects will be completed in the early 1990s, demand will also increase. By 1995 the Mid-Peninsula occupancy rate should climb back to around 70 percent. This market expected to swing from a 450 to

Table II-14

HOTEL DEMAND & SUPPLY BALANCE IN THE MID PENINSULA MARKET

	1988	1990	1995	2000	2005
Employment Related Demand	3,186	3,353	3,612	3,723	3,813
Airport Related Demand	2,614	2,827	3,440	4,085	4,852
Total Rooms Supportable	5,800	6,180	7,052	7,808	8,665
Current Inventory	5,916				
New Projects Expected		848	750		
Older Units Removed		(115)	(350)	(400)	(250)
Total Rooms Provided	5,916	6,649	7,049	6,649	6,399
Total Market New Rooms Needed	(116)	(469)	3	1,159	2,266
San Carlos Share of Total Market	1.6%	2.5%	3.5%	4.5%	5.5%
Rooms Supportable in San Carlos	94	155	247	351	477

Source: Economics Research Associates

500 room over supply in 1990 to equilibrium in 1995, a 1,100 to 1,200 room under supply by 2000 and a 2,200 to 2,300 room under supply by 2005.

Implications For San Carlos

Clearly, the city of San Carlos has an opportunity to increase its share of the Mid-Peninsula hotel market. The question is how quickly. Without question some over building is expected in this market in the near future. However, the over building may be at the top end of the market, and opportunities may still exist for new development which appeal to the budget conscious client. This opportunity exists in part due to the fact that perhaps as much as one-sixth of the current inventory is older, poorly located and too small to be operated efficiently.

It is ERA's opinion that the Mid-Peninsula hotel market will be able to support a 150 to 175 room property in the vicinity of the Holly Street interchange in San Carlos by 1995. This project is likely to be feasible before 1995, but just how much sooner should be the subject of detailed investigation by the project proponent. Between 1995 and 2005 an additional 200 to 250 rooms could be added in one or two properties in this same vicinity. Because these hotel/motels will generate substantial transient occupancy tax revenues to support general government services, it is very much in San Carlos's economic interest to encourage these projects. (For example, 500 hotel/motel rooms with an average effective room rate of \$65 per night and an average occupancy of 70 percent generates \$500,000 per year for the City's General Fund at the current tax rate of 6.0 percent. The hotel guest would also generate some sales for local restaurants and shops resulting in more sales tax for the City.)

Section III

THE OUTLOOK FOR INDUSTRY

DIRECTION OF COUNTY ECONOMIC CHANGE

The San Mateo County economy has been and still is undergoing a steady transition from a suburban economy to an increasingly urban economy. The steady economic growth of San Francisco to the north and the rapid emergence of Silicon Valley to the south, during the past ten to fifteen years, have increased the level of economic activity in San Mateo County. The greater demand pressures have resulted in increased activity at San Francisco International Airport, increased demand for hotel rooms, higher values for all types of land, higher housing prices, higher average income for the residential population and greater demand for quality retail goods and services.

The manufacturing sector of the County economy is the one sector which has not necessarily benefitted from these changes. Higher housing costs make it more difficult for local manufacturers to attract lower paid labor, and higher land values result in higher rents for tenants and encourage relocation to realize capital gain for owners. These pressures increase the cost of doing business in San Mateo County, particularly for firms dependent on lower cost labor. As a result, the traditional manufacturers have been moving out of San Mateo County and continue to have incentive to move to lower cost East Bay communities.

The decline of the manufacturing sector is vividly illustrated in Table III-1. Since 1970 the trade, finance, insurance, real estate and service sectors of San Mateo County have either doubled or tripled in employment, while the manufacturing sector has actually lost employment. In fact, from 1980 to 1987, a period when total County employment increased from 262,600 to 292,400, manufacturing employment has declined from 36,900 to 31,700.

Table III-1

WAGE AND SALARY EMPLOYMENT GROWTH
SAN MATEO COUNTY
1970-1987

	<u>1970</u>	<u>1975</u>	<u>1980</u>	<u>1985</u>	<u>1986</u>	<u>1987</u> ^{1/}	<u>Percent Change 1970-1987</u>	<u>1970-1987 Compounded Annual Growth Rate</u>
Agriculture/Mining/ Construction	11.3	12.5	16.8	17.4	17.7	18.3	61.9%	2.88
Manufacturing	33.7	29.6	36.9	31.5	31.0	31.7	(5.9)	(0.36)
Transportation/Utilities	31.3	30.3	31.1	32.7	34.0	33.7	7.7	0.44
Wholesale and Retail Trade	43.7	54.4	70.4	81.6	82.0	84.3	92.9	3.94
Finance, Insurance, and Real Estate	7.4	10.8	16.8	20.1	20.8	21.2	186.5	6.39
Services	29.6	39.5	56.3	66.3	67.9	71.5	141.6	5.32
Government	27.8	35.0	34.3	31.5	31.6	31.7	14.0	0.71
Total San Mateo County	184.8	212.1	262.6	281.1	285.0	292.4	58.2	2.74

^{1/} Estimate.

Source: State of California Employment Department and Economics Research Associates

Over the next ten to twenty years the economy of San Mateo County, as measured by both employment and income, will continue to grow. However, the nature and contribution of the manufacturing sector is expected to change. ERA expects the traditional manufacturers, which compete more or less on the basis of price, to gradually decline in the County, but the high technology manufacturers, which prosper through innovation, to thrive. The success of the higher technology firms is dependent upon well educated, highly skilled and well paid labor. Because of the County's proximity to the numerous employment opportunities in Silicon Valley, to the urban amenities and professional openings available in San Francisco, to the outdoor amenities in the mountains and along the coast, and the quality of the local schools, parks, urban services and housing stock, this highly skilled labor force will resist relocation to lower cost and lower quality communities. It will be to the advantage of the higher technology firms in the County to remain in order to benefit from the exception abilities of this labor force.

SAN CARLOS IN THE CONTEXT OF SAN MATEO COUNTY

The economic forces at work in San Mateo County naturally apply to the city of San Carlos, which has 370 acres of zoned industrial property within its city limits. Only about one percent of that is vacant and available for new development. Unimproved industrial property in San Carlos, according to the Community Economic Profile published by the San Carlos Chamber of Commerce, tends to be valued at \$12 to \$15 per square foot which is 50 to 100 percent higher than industrial property in much of Santa Clara or Alameda County. Faced with rapidly increasing housing costs and the scarcity and high cost of industrial land, the traditional manufacturing firms in San Carlos are under cost pressure to relocate. However, the top five manufacturing employers in the San Carlos area, which employ approximately 2,500 people, appear to be in high technology fields and are probably not

to be in high technology fields and are probably not particularly vulnerable. These are Dalmo Victor Company (electronic equipment and parts), Litton Industries (microwave electronic tubes), Harris Corporation (microwave communications equipment), EIMAC-Division of Varion (electronic power tubes) and Quantic Industries (aerospace).

PERFORMANCE OF INDUSTRIAL PARKS IN AND AROUND SAN CARLOS

In addition to examining the industrial sector from a regional economic perspective, we also wanted to review this sector from a land use and land development perspective because it is an area where municipal government policy has considerable impact. The survey of seven major business parks in San Carlos, Belmont and Redwood City provides the necessary insight; these surveys are presented in Tables III-2 through III-8 and are summarized in Table III-9. The key findings are highlighted below:

- o The overall occupancy of business park space is very high. These seven parks contain nearly 1.8 million square feet of space and enjoy a 94 percent overall occupancy. The occupancy rate is 96 percent for office/R & D space and 89 percent for warehouse/distribution space. The only park with any significant vacancy is San Carlos Industrial Park, a condominium industrial park selling spaces ranging from 2,018 to 9,600 square feet, just completed in October, 1987. At the time of our survey in February, 1988 this 380,000 square foot park had a 20 percent vacancy rate.
- o The rent for warehouse/distribution space tends to be very high. Much of it ranges from \$0.70 to \$1.05 per square foot on a triple net basis (net of taxes, maintenance and utilities), nearly the same rent as office/R & D space. This further illustrates the pressure faced by traditional industrial space users.

Table III-2

SAN CARLOS BUSINESS PARK

PARK: San Carlos

MAP CODE:

ADDRESS: 951-981 Industrial Road, San Carlos

STATUS: Completed

NUMBER OF BUILDINGS: 6

COMPLETION DATE: 1973

	<u>Total Square Feet</u>	<u>Leased or Preleased</u>	<u>Available Square Feet</u>	<u>Percent Available</u>	<u>Effective Rates</u>	<u>Tenant Improvement Allowance</u>
Office/R&D/Service	36,000	36,000	0	0%	\$0.75- \$1.00NNN	None
Light Industrial	--	--	--	--	--	--
Warehouse/Distribution	84,000	84,000	0	0%	\$0.75- \$1.00NNN	None
Total	120,000	120,000	0	0%	--	--

COMMENTS: Owned by Trammel Crow Company. Tenants are mixed, including Supreme Court Health Club, Genesis Typeset, Ewing Irrigation Products & Jake Barken's Portrait World. Buildings provide side office entry with warehouse doors located a sides opposite entry.

Table III-3

SAN CARLOS INDUSTRIAL PARK

PARK: San Carlos Industrial Park

MAP CODE:

ADDRESS: 1300 Industrial Road, San Carlos

STATUS: Completed

NUMBER OF BUILDINGS: 4

COMPLETION DATE: October, 1987

	<u>Total Square Feet</u>	<u>Area Sold</u>	<u>Available Square Feet</u>	<u>Percent Available</u>	<u>Effective Rates</u>	<u>Tenant Improvement Allowance</u>
Office/R&D/Service	76,000	60,800	15,200	20%	\$68-\$79/ sq. ft.	None
Light Industrial	--	--	--	--	--	--
Warehouse/Distribution	304,000	243,200	60,800	20%	\$68-\$79/ sq. ft.	None
Total	380,000	304,000	76,000	20%		

COMMENTS: Small condominium units for mixed tenants from 2,018 to 9,600 square feet. Units have side office entry with roll up warehouse doors adjacent to offices. Units are being sold by Diodati Developers. Another 13.1 net acres of land is currently in escrow to be sold to Lucky Supermarket, Inc. Tenants in park include Pacific Rubber & Packing, Sequoia Cabinet, Old World Furniture, accounting firm, etc.

Table III-4

BAYSIDE BUSINESS CENTER

PARK: Bayside Business Center

MAP CODE:

ADDRESS: 1123 Industrial Road, San Carlos

STATUS: Completed

NUMBER OF BUILDINGS: 3

COMPLETION DATE: 1985

	<u>Total Square Feet</u>	<u>Leased or Preleased</u>	<u>Available Square Feet</u>	<u>Percent Available</u>	<u>Effective Rates</u>	<u>Tenant Improvement Allowance</u>
Office/R&D/Service	65,700	62,600	3,100	4.7%	\$0.75 NNN	None
Light Industrial	—	—	—	—	—	—
Warehouse/Distribution	7,300	7,300	—	—	\$0.85 NNN	None
	<hr/>	<hr/>	<hr/>	<hr/>		
Total	73,000	69,900	3,100	4.2%		

COMMENTS: Located near Highway 101. Architectural detailing includes solar bronze glass, redwood trim and enameled metal roofing. Generous landscaping, grade level, roll up loading doors. Located at the buildings' inner sides. Building divisible to 3,200 square feet.

Table III-5

HARBOR PARK

PARK: Harbor Park

MAP CODE:

ADDRESS: 300 Harbor Blvd., Belmont

STATUS: Completed

NUMBER OF BUILDINGS: 5

COMPLETION DATE: 1987

	<u>Total Square Feet</u>	<u>Leased or Preleased</u>	<u>Available Square Feet</u>	<u>Percent Available</u>	<u>Effective Rates</u>	<u>Tenant Improvement Allowance</u>
Office/R&D/Service	150,280	147,000	3,280	2.2%	\$0.70- \$0.90NNN	\$15.00
Light Industrial	—	—	—	—	—	—
Warehouse/Distribution	64,410	63,000	1,410	2.2%	\$0.70- \$0.90NNN	—
Total	214,690	210,000	4,690	2.2%		

COMMENTS: Major tenants include Plasma Sciences and Fortune Systems. Located near Highway 101. Space divisible from 1,200 to 100,000 square feet.

Table III-6

MID PENINSULA BUSINESS PARK

PARK: Mid-Peninsula Business Park

MAP CODE:

ADDRESS: 1735-55 E. Bayshore Road, Redwood City

STATUS: Completed

NUMBER OF BUILDINGS: 2

COMPLETION DATE: 1985

	<u>Total Square Feet</u>	<u>Leased or Preleased</u>	<u>Available Square Feet</u>	<u>Percent Available</u>	<u>Effective Rates</u>	<u>Tenant Improvement Allowance</u>
Office/R&D/Service	38,000	34,000	4,000	10.5%	\$0.90- \$0.92	Turn key
Light Industrial	—	—	—	—	—	—
Warehouse/Distribution	26,000	24,000	2,000	7.7%	\$0.80- \$0.85	—
	—	—	—	—		
Total	64,000	58,000	6,000	9.4%		

COMMENTS: R&D/office project includes small users: Network Auto Broker, Pro-Fiction Service, Moondog Surf & Sports Wear. Space divisible from 811 to 2,500 square feet.

Table III-7

BAYPORT MARINA PLAZA

PARK: Bayport Marina Plaza

MAP CODE:

ADDRESS: 643 Bair Island Road, Redwood City

STATUS: Completed

NUMBER OF BUILDINGS: 1

COMPLETION DATE: 1981

	<u>Total Square Feet</u>	<u>Leased or Preleased</u>	<u>Available Square Feet</u>	<u>Percent Available</u>	<u>Effective Rates</u>	<u>Tenant Improvement Allowance</u>
Office/R&D/Service	40,000	30,000	10,000	25%	\$1.00- \$1.20 gross	Turn key
Light Industrial	—	—	—	—	—	—
Warehouse/Distribution	48,000	44,250	3,750	7.8%	\$0.75- \$0.85 gross	—
	—	—	—	—		
Total	88,000	74,250	13,750	15.6%		

COMMENTS: Located across the street from the Peninsula Marina Office Park. Minimal landscaping. Space divisible from 1,000 to 8,000 square feet. Mixed tenants including the attorney firm/owner.

Table III-8

SEAPORT CENTER

PARK: Seaport Center

MAP CODE:

ADDRESS: Chesapeake Drive, Redwood City

STATUS: Completed

NUMBER OF BUILDINGS: 21 (to be 27)

COMPLETION DATE: 1985

	<u>Total Square Feet</u>	<u>Leased or Preleased</u>	<u>Available Square Feet</u>	<u>Percent Available</u>	<u>Effectitve Rates</u>	<u>Tenant Improvement Allowance</u>
Office/R&D/Service	739,625	732,505	7,912	1.1%	\$1.05 NNN	\$20-\$25
Light Industrial	--	--	--	--	--	--
Warehouse/Distribution	82,182	81,390	--	0%	\$1.05 NNN	--
Total	821,807	813,895	7,912	1.0%		

COMMENTS: Located next to the San Francisco Bay near Highway 101. Construction on six new buildings totaling 179,000 square feet will be completed by summer of 1988. By fall 1988, one large user will vacate 130,000 square feet. New buildings are located adjacent to the Municipal Marina near the Charley Brown's and Clark's By The Bay restaurants.

Table III-9

OCCUPANCY LEVELS AND RENTS OF MAJOR BUSINESS PARKS
IN AND NEAR SAN CARLOS

	<u>Total Leaseable (square feet)</u>	<u>Total Leased Area (square feet)</u>	<u>Occupancy Level Percent</u>	<u>Effective Rates (\$/sq. ft.)</u>	<u>Tenant Improvement Allowances</u>
<u>San Carlos</u>					
Total (sq. ft.)	573,000	493,900	86%	—	—
Office/R&D	177,700	159,400	90%	\$0.75-\$1.00NNN	NA
Warehouse/Distribution	395,300	334,500	85%	\$0.75-\$1.00NNN	NA
<u>Belmont</u>					
Total (sq. ft.)	214,690	210,000	98%	—	—
Office/R&D	150,280	147,000	98%	\$0.70-\$0.90NNN	\$15.00
Warehouse/Distribution	64,410	63,000	98%	\$0.70-\$0.90NNN	\$15.00
<u>Redwood City</u>					
Total (sq. ft.)	973,807	946,145	97%	—	—
Office/R&D	817,625	796,505	97%	\$0.90-\$1.20	\$20-\$25
Warehouse/Distribution	156,182	149,640	96%	\$0.75-\$1.05	—
<u>All Three Cities</u>					
Total (sq. ft.)	1,761,497	1,650,045	94%		
Office/R&D	1,145,605	1,102,905	96%		
Warehouse/Distribution	615,892	547,140	89%		

Source: Economics Research Associates

- o Seaport Center in Redwood City is constructing six new buildings, which will total 179,000 square feet, due to be completed by the summer of 1988. Other than that new activity, there is no major industrial park development in these three communities. We attribute the lack of new development, even with high rents and high occupancy rates in existing parks, to the scarcity and high cost of industrial land.

IMPLICATIONS FOR SAN CARLOS

The industrial sector in San Carlos is in transition. Regional economic forces are causing traditional manufacturers to move to lower land and labor cost locations. The land or buildings formerly occupied by the out migrants will be upgraded or reused by either higher technology and higher value manufacturers or by commercial uses which serve a Mid-Peninsula population of increasing affluence. The City of San Carlos' land use policies need to recognize this change.

Section IV

OFFICE DEVELOPMENT IN SAN CARLOS

THE LOCAL OFFICE MARKET

Office development on the Peninsula has historically been concentrated in the San Mateo and Foster City area because of superior north-south and east-west access. Palo Alto to the south in Santa Clara County has also been a strong area for office development because of the number of executives living in that community and the ambience of its downtown. The San Carlos, Belmont and Redwood City area has not been particularly significant in terms of the Peninsula office market.

San Carlos

Excluding single user buildings, such as the 128,000 Eureka Savings and Loan building, the city of San Carlos has 125,800 square feet of office space in six significant buildings (see Table IV-1). Five out of these six buildings were completed in 1987. Two-thirds of the space in San Carlos is in Shoreway Business Park I and II. These two buildings total 82,900 square feet, but there is some question as to whether they are entirely office buildings or are part office and industrial buildings. Excluding Shoreway Business Park, the office buildings average just under 11,000 square feet each, very small indeed. With exception of the 45,440 Shoreway Business Park I building, which is 19 percent leased, all the other office buildings in San Carlos are full. Monthly per square foot rents, net of maintenance, taxes and utilities, range from \$1.05 in Shoreway Business Park to \$1.25 or slightly higher in the downtown.

Belmont and Redwood City

The city of Belmont also does not have much office space. It has 175,750 square feet in two major buildings, and the total occupancy rate is only 68 percent. Rents are somewhat lower than in San Carlos (see Table IV-2).

Table IV-1

SIGNIFICANT OFFICE BUILDINGS IN SAN CARLOS

<u>Development/Location</u>	<u>Total Leasable Area (Square Feet)</u>	<u>Number of Floors</u>	<u>Year Completed</u>	<u>Total Leased Area (Square Feet)</u>	<u>Occupancy Level Percent</u>	<u>Effective Lease Rate (Price/ Square Feet)</u>	<u>Tenant Improvement Allowance</u>	<u>Comments/Parking Type/Fee</u>
Peninsula Building Exchange	18,000	2	1968	17,618	98%	\$1.25 NNN	None	Total: 25 spaces.
Shoreway Business Park I 125 Shoreway	45,440	1	1987	8,440	19%	\$1.05 NNN	\$18	3.3/1,000; surface; free
Shoreway Business Park II 75 Shoreway Drive	37,356	1	1987	37,356	100%	\$1.05 NNN	\$18	3.3/1,000; surface; free
Black Mountain Spring Water 1390 El Camino Real	12,000	3	1987	12,600	100%	\$1.95 NNN	\$22	Tenants include Black Mountain Spring Water and a real estate brokerage firm.
Peck and Peck 1600 Laurel	5,000	2	1987	5,000	100%	\$1.25 NNN	None	4/1,000 surface free. Tenants include a winery office, insurance company and a beauty consultant.
939 Laurel Ed Chow	8,000	2	1987	8,000	100%	\$1.25-1.50 NNN	\$15-\$25	Tenants include law firm, travel agency, chiro- practor, Chow office.
TOTAL	125,796			88,414	70%	\$1.05-1.95 NNN	\$15-\$22	

Source: Economics Research Associates Survey, February, 1988.

Table IV-2

SIGNIFICANT OFFICE BUILDINGS IN BELMONT

<u>Development/Location</u>	<u>Total Leasable Area (Square Feet)</u>	<u>Year Completed</u>	<u>Number of Floors</u>	<u>Total Leased Area (Square Feet)</u>	<u>Occupancy Level Percent</u>	<u>Effective Lease Rate (Price/ Square Feet)</u>	<u>Tenant Improvement Allowance</u>	<u>Comments/Parking Type/Fee</u>
Belmont Shores 1301 Shoreway Road	137,118	1983	4	112,118	82%	\$1.40-1.45 gross	Negotiable	4/1,000 surface, free.
Creekside Office Plaza 1070 6th Ave.	38,632	1985	3	8,000	21%	\$1.30 gross	\$5.50	4/1,000 surface, free.
TOTAL	175,750			120,118	68%	\$1.30-1.45		

Redwood City is different, however. It has the concentration of office space and the highest leasing rates. It has 1,383,000 square feet of office space in buildings over 45,000 square feet for 82 percent of the space in these three cities (see Table IV-3). Nearly all of the space in Redwood City has been completed since 1980. The overall occupancy rate in the Redwood City buildings is 83 percent. Lease rates in Redwood City are \$1.50 to \$1.90 on a gross basis which translates into \$1.10 to \$1.40 on a triple net basis. The absorption of nearly 90,000 square feet of office space per year in Redwood City over the past eight years demonstrates that this part of the Peninsula has a market for office space; however, the city of San Carlos has not participated in this market to any significant degree.

Three Cities Combined

These three cities combined have 1.68 million square feet of office space in significant buildings, and 1.36 million square feet of this space is occupied for an overall occupancy of 81 percent (Table IV-4). Using past construction and occupancy as a guide, ERA estimates that this three city Mid Peninsula market can absorb approximately 100,000 square feet of office space per year. Because of the greater availability of land, a large majority of this demand will continue to be captured by Redwood City.

NEW PROJECTS PROPOSED

Several major office projects have been proposed for development in this Mid Peninsula market, and several are overly ambitious to be realistic. The possible future office projects which we have identified are as follows:

- o Kuman Corporation had at one time secured approvals from the city of Belmont to construct a ten building office complex of 686,400 square feet over a ten year period along with a

Table IV-3

SIGNIFICANT OFFICE BUILDINGS IN REDWOOD CITY

<u>Development/Location</u>	<u>Total Leasable Area (Square Feet)</u>	<u>Year Completed</u>	<u>Number of Buildings/ Floors</u>	<u>Total Leased Area (Square Feet)</u>	<u>Occupancy Level Percent</u>	<u>Effective Lease Rate (Price/ Square Feet)</u>	<u>Tenant Improvement Allowance</u>	<u>Comments/Parking Type/Fee</u>
First Interstate Bank Building 702 Marshall Court	60,000	1976	1/6	55,000	92%	\$1.40-1.50 gross	Negotiable	Metered, city parking adjacent to building.
Peninsula Marina Office Park 650-58 Bair Island Rd.	90,000	1978	4/3	50,000	56%	\$1.40-1.50 gross	Negotiable	4/1,000 surface; free.
Twin Dolphin Plaza 10 Twin Dolphin Drive	259,000	1980	1/5	229,000	88%	\$1.10-1.30 gross	Turnkey	4/1,000 surface; free.
Bay Area Bank Bldg.	60,000	1981	1/6	45,000	75%	\$1.45-1.75 gross	None	4/1,000 surface; free.
Westshore Office Park 200-250 Twin Dolphin Dr.	53,000	1983	6/1	49,580	94%	\$1.45 gross	Negotiable	3.5/1,000 surface; free.
101 Twin Dolphin Dr.	64,000	1983	1/6	64,000	100%	N/A	None	4/1,000 surface.

Table IV-3

(Continued)

SIGNIFICANT OFFICE BUILDINGS IN REDWOOD CITY

<u>Development/Location</u>	<u>Total Leasable Area (Square Feet)</u>	<u>Year Completed</u>	<u>Number of Buildings/ Floors</u>	<u>Total Leased Area (Square Feet)</u>	<u>Occupancy Level Percent</u>	<u>Effective Lease Rate (Price/ Square Feet)</u>	<u>Tenant Improvement Allowance</u>	<u>Comments/Parking Type/Fee</u>
Peninsula Corporate Center 805 Veterans Blvd.	86,000	1983	1/3	63,300	74%	\$1.60-1.70 gross	\$20	4/1,000 surface, free.
Bridge Park Center 350-390 Bridge Pkwy.	48,000	1983	3/2	42,170	88%	\$1.35-1.45 gross	Negotiable	4/1,000 surface, free.
Shores Center I 3 Twin Dolphin Dr.	50,000	1984	1/3	23,000	46%	\$1.75-1.95 gross	Negotiable	4/1,000 surface, free.
Paragon Point 1-3 Lagoon Drive	240,000	1985	2/4	224,500	94%	\$1.55-1.70 gross	Turnkey	3/1,000 surface, free.
Shore Breeze 275 Shoreline Dr.	110,000	1986	1/6	85,000	77%	\$1.50-1.65 gross	\$18	4/1,000 surface, free.
The DHL Building 333 Twin Dolphin	182,000	1986	1/7	170,000	93%	\$1.70-1.90 gross	Negotiable	4/1,000 surface, free.
Shore Center II 100 Marine Pkwy.	81,000	1987	1/6	51,000	63%	\$1.55-1.70 gross	Negotiable	3.3/1,000 surface, free.
TOTAL	1,383,000			1,151,550	83%	\$1.10-1.95 gross		

Source: Economics Research Associates Survey, February, 1988.

Table IV-4

SUMMARY OF THE BELMONT-SAN CARLOS-REDWOOD CITY
OFFICE MARKET

	<u>Total Leasable Area (Sq. Ft.)</u>	<u>Total Leased Area (Sq. Ft.)</u>	<u>Occupancy Level (Percent)</u>	<u>Effective Rates (Cost Per Sq. Ft.)</u>
San Carlos	125,796	88,414	70%	\$1.05 NNN- \$1.95 Gross
Belmont	175,750	120,118	68%	\$1.30 NNN- \$1.45 Gross
Redwood City	<u>1,383,000</u>	<u>1,151,550</u>	<u>83%</u>	\$1.10-\$1.95 Gross
Total	1,684,519	1,360,082	81%	

Source: Economics Research Associates Survey, February, 1988

hotel, a restaurant and 220 condominiums. The project and its approvals have expired.

- o Caruff Development has secured approval from Redwood City to build a 200,000 square foot office tower on Twin Dolphin Drive. However, the developer is yet to secure financing.
- o Campeau Development, a very substantial developer, has secured approvals from Redwood City to construct a six building office complex totaling 1.25 million square feet. The first phase is estimated to be completed in the summer of 1989.
- o Mobil Land is attempting to resurrect its South Shore project, which is the southern portion of Redwood Shores. It was banned from development by a voter referendum several years ago. This project, which is just east of San Carlos Airport, will include a major office component.

FUTURE DEMAND IN SAN CARLOS

Using the foregoing information as background and using the computations in Table IV-5, ERA estimates that San Carlos will absorb approximately 200,000 to 250,000 square feet of office space between 1988 and 2005. The average annual absorption is therefore 12,000 to 15,000 square feet per year. This estimate considered the following factors:

- o The projected employment growth from 1988 to 2005 in the cities of Belmont, Redwood City and San Carlos;
- o The shift in employment from manufacturing to services, particularly services which use office space;

Table IV-5
ESTIMATED OFFICE DEMAND GROWTH IN SAN CARLOS

Employment By City	1988	1990	1995	2000	2005
Belmont	12,480	13,000	13,700	14,100	14,600
Redwood City	40,480	43,400	48,700	52,200	54,300
San Carlos	17,720	18,200	18,900	18,500	19,100
Total	70,680	74,600	81,300	84,800	88,000
Estimated Office Employment Percent	10.0%	10.6%	12.1%	13.6%	15.0%
Office Employment	7,068	7,908	9,837	11,533	13,200
Space Needed @ 225 SF Per Employee	1,590,300	1,779,210	2,213,393	2,594,880	2,970,000
Demand Increase Over Previous Period	--	188,910	434,183	381,488	375,120
San Carlos Share @ 15 %	--	28,336	65,127	57,223	56,268
Upgrade Demand In San Carlos	--	4,000	15,000	20,000	20,000
Cumulative Demand In San Carlos	--	32,336	112,464	189,687	265,955
Current Excess Vacant Space	35,200				
Net Cumulative Demand In San Carlos	--	(2,864)	77,264	154,487	230,755

Source: ABAG Projections 87 and ERA

- o The amount of space needed per employee;
- o The current inventory of space in these three cities;
- o The estimated San Carlos share of the Mid Peninsula employment growth generated demand;
- o The estimated upgrade demand within San Carlos; and
- o The vacant office space currently in San Carlos.

This analysis indicates that office space will not be a major component of San Carlos's future economic growth. However, if the office development which is coming to San Carlos can be induced into the downtown, the spending by office employees would help revitalize retailing in the downtown. If downtown parking requirements could be made more flexible, redevelopment consisting of one or two levels of office space over street level retail shops could be induced along Laurel Street.

Section V

FUTURE RETAIL OPPORTUNITIES

This final report section, the most important section of the study, examines the opportunities and constraints currently faced by San Carlos' retail sector.

HEALTH OF SAN CARLOS' RETAIL SECTOR

Although in current dollars the total taxable volume in retail outlets has increased from \$119.8 million in 1980 to \$142.1 million in 1986, San Carlos' retail sector has shown considerable weakness. As indicated in Table V-1, San Carlos' sales as a percentage of San Mateo County has slipped steadily from 4.7 percent in 1980 to 3.5 percent in 1986. Furniture, appliance, building materials and farm equipment outlets account for over 43 percent of San Carlos' taxable retail outlet sales and represent an area of strength for the city.

As a point of comparison, we examined the per capita retail sales of seven cities in the Mid-Peninsula with locational characteristics similar to San Carlos. These cities, all located along the Highway 101 and El Camino Real corridor, are Belmont, Burlingame, Foster City, Menlo Park, Palo Alto, Redwood City and San Mateo. As shown in Table V-2, on average these cities generated \$8,742 in taxable retail sales per person. In fact, with the exception of Foster City and Belmont, they all had per capita retail sales between \$7,233 and \$11,830. The figure for San Carlos was \$5,371 or only 61 percent of the seven Mid Peninsula city average.

STRENGTHS AND WEAKNESSES BY AREA AND RETAIL SECTOR

The city of San Carlos has very recently performed a detailed survey of its retail space inventory. This information is presented by retail sector and by planning area in Table V-3. As of early 1988,

TAXABLE SALES IN THE CITY OF SAN CARLOS
(Millions of Dollars)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>Change 1980-1987</u> <u>Dollars</u>	<u>Percent</u>
Apparel Stores	\$ 4.9	\$ 5.0	\$ 5.5	\$ 5.7	\$ 6.5	\$ 6.4	\$ 5.8	\$ 0.9	18.4%
General Merchandise Stores	2.8	2.6	1.8	1.3	1.2	1.3	1.4	(1.4)	(50.0)
Drug Stores	9.0	4.1	6.0	6.8	7.0	7.5	7.6	(1.4)	(15.6)
Food Stores	8.6	8.0	7.2	8.1	8.0	8.1	8.7	0.1	1.1
Package Liquor Stores	2.2	3.6	5.2	4.7	4.0	2.8	1.5	(0.7)	(32.0)
Eating and Drinking Places	9.3	9.4	9.9	11.5	13.0	13.7	15.5	6.2	66.0
Home Furnishings and Appliances	15.8	1.6	14.9	18.8	21.2	22.2	24.3	8.5	53.8
Building Materials and Farm Implements	22.0	23.3	22.9	32.7	37.7	37.6	37.3	15.3	69.5
Auto Dealerships and Supplies	10.0	4.9	5.2	7.0	9.7	8.6	11.6	1.6	16.0
Service Stations	11.5	12.0	1.1	11.3	11.0	11.3	8.8	(2.7)	(23.5)
Other Retail Outlets	<u>32.9</u>	<u>32.9</u>	<u>32.8</u>	<u>35.8</u>	<u>38.7</u>	<u>41.2</u>	<u>19.6</u>	<u>(13.3)</u>	<u>(40.4)</u>
Total Retail Outlets	\$119.8	\$122.2	\$122.0	\$143.8	\$158.3	\$160.7	\$142.1	\$22.3	18.6%
San Carlos as Percent of San Mateo County	4.7%	4.4%	4.2%	4.5%	4.3%	4.0%	3.5%	--	--
All Other Outlets	<u>\$124.9</u>	<u>\$112.1</u>	<u>\$102.6</u>	<u>\$96.2</u>	<u>\$61.1</u>	<u>\$89.5</u>	<u>\$81.8</u>	<u>(\$43.1)</u>	<u>(34.5%)</u>
TOTAL ALL OUTLETS	\$244.8	\$234.3	\$224.6	\$240.0	\$219.4	\$250.2	\$223.9	(\$20.9)	(8.5%)

Source: California State Board of Equalization, and Economics Research Associates

Table V-2

COMPARISON OF 1986 PER CAPITA TAXABLE RETAIL SALES

	Taxable Sales (\$ Millions)	Population	Per Capita Sales	Percent of Average
Belmont	\$74	25,100	\$2,957	34%
Burlingame	\$291	27,150	\$10,715	123%
Foster City	\$76	26,650	\$2,839	32%
Menlo Park	\$204	28,200	\$7,233	83%
Palo Alto	\$672	56,800	\$11,830	135%
Redwood City	\$609	58,500	\$10,407	119%
San Mateo	\$748	83,400	\$8,965	103%
Total or Average	\$2,673	305,800	\$8,742	100%
San Carlos	\$142	26,450	\$5,371	61%

Source: State Board of Equalization and Department of Finance

Table V-3

DISTRIBUTION OF RETAIL SPACE IN SAN CARLOS

	Downtown	South Laurel	El Camino Real	San Carlos Plaza	Old County Road	Levitz/ Breuners	Industrial Road	CITY TOTAL
Apparel Stores	35,250	5,200	5,800	6,000	0	0	5,000	57,250
General Merchandise	15,850	500	1,050	0	0	0	0	17,400
Drug Stores	8,375	4,050	0	28,000	0	0	0	40,425
Grocery Stores	34,150	9,600	3,900	0	754	0	2,000	50,404
Liquor Stores	3,100	3,400	700	0	0	0	0	7,200
Restaurants	21,525	11,744	73,369	5,720	8,148	0	4,956	125,462
Furniture/Appliance	25,350	8,470	57,008	18,000	3,600	168,500	76,565	357,493
Building Material	3,300	450	46,213	0	12,125	0	442,719	504,807
Car Dealers/Supplies	1,800	3,200	54,474	0	3,817	0	97,748	161,039
Gas Stations	1,787	0	8,628	0	6,600	0	33,337	50,352
Other Retail	62,836	38,955	49,333	3,850	10,500	0	74,339	239,813
TOTAL RETAIL	213,323	85,569	300,475	61,570	45,544	168,500	736,664	1,611,645

Source: City of San Carlos Field Survey.

before completion of Lucky's and Home Depot, San Carlos had just over 1.6 million square feet of retail space. Over 860,000 square feet of this space, or more than half, are in furniture, appliance, building materials and hardware outlets. Nearly 60 percent of this inventory is east of El Camino Real, and the completion of Lucky's and Home Depot will shift the balance further to the eastside. The downtown area has 213,000 square feet, and the South Laurel area adds another 86,000 square feet. The businesses on El Camino Real, including San Carlos Plaza, contain 362,000 square feet of retail space.

For the city as a whole, we then computed sales per square foot of retail space per year. This figure indicates the intensity of use of each type of retail space and is a good indicator of the performance of that sector (see Table V-4). When compared to ERA's experience with other communities or to shopping center information published by the Urban Land Institute, the sectors which show strength are grocery, drug, liquor and service stations. The other sectors are not indicating noteworthy performance. Against an expected performance of \$350 per square foot per year for supermarkets, the grocery sector in San Carlos is estimated to be doing \$556 per square foot per year. It is therefore not surprising that the local population strongly supports additional grocery store competition and that a new Lucky's supermarket is in the permit process. For the liquor and drug store sectors where \$125 to \$150 per square foot is reasonable, the performance in San Carlos is around \$190 to \$195 per square foot per year. When measured by sales velocity per square foot of retail space, San Carlos' strength is as a convenience center which serves the local and nearby resident population.

Downtown and South Laurel

The Downtown and South Laurel Street area contains nearly 300,000 square feet of retail space, and this space generates an estimated \$32.1 million in sales for about 19 percent of the city

total (see Table V-5). Approximately 62 percent of the sales generated by this area is either grocery, liquor or drug store sales. In fact, the grocery and liquor stores in this area account for approximately one-sixth of the space but nearly two-thirds of the total sales.

Clearly, the strength of this retail area is as a convenience shopping area serving the local population. This is not at all surprising when one examines the location of the Downtown and South Laurel area. It is west of El Camino Real and the Southern Pacific tracks, both significant barriers to convenience shopping, and most of the residential population is on the same side of these barriers. The main arterials leading down from the more affluent residential areas in the hills, San Carlos Avenue and Brittan Avenue, more or less bracket this area.

When the new Lucky's supermarket opens on the east side of Old Country Road between Brittan Avenue and Howard Avenue, it will divert sales from the Downtown. Lucky's competitive impact will be much more severe if an underpass is constructed at Brittan Avenue; however, the completion of that underpass appears to be at least five years away.

The El Camino Corridor

The El Camino strip, including San Carlos Plaza, has 362,000 square feet of retail space or about 20 percent more than Downtown and Laurel Street (see Table V-6). With sales of nearly \$53 million, this area accounts for about 31 percent of the sales in San Carlos. The important contributors in this area are the drug store at San Carlos Plaza and the restaurants and service stations along this major commercial strip. With exception of San Carlos Plaza, which provides convenience goods and limited comparison shopping goods to local residents, the importance of this commercial strip is that it derives restaurant, often fast food restaurant, and service station sales from motorists driving through San Carlos. This capture of sales from

Table V-5

DOWNTOWN & SOUTH LAUREL SALES VELOCITY BY SECTOR

Store Type	Sales* (\$1,000)	Sales Percentage	Square Footage	Sales Per Sq Ft
Apparel	\$3,413	10.6%	40,450	\$84
Gen Merchandise & Drug	1,743	5.4%	28,775	61
Grocery & Liquor**	20,047	62.5%	50,250	399
Restaurants	1,617	5.0%	33,269	49
Furn & App & Bldg Mat	636	2.0%	37,570	17
Other Retail Stores	4,628	14.4%	108,578	43
Total Retail Stores	\$32,084	100.0%	298,892	\$107
Percent of City	18.8%		18.5%	113.0%

*4th quarter 1986 through 3rd quarter 1987

**Estimated by deducting the estimated sales of the other areas from the city total

Source: City of San Carlos

Table V-6

EL CAMINO STRIP SALES VELOCITY BY SECTOR*

Store Type	Sales** (\$1,000)	Sales Percentage	Square Footage	Sales Per Sq Ft
Apparel	\$2,359	4.5%	11,800	\$200
Drug & Grocery*** & Liquor	14,673	27.9%	32,600	450
Restaurants	10,662	20.3%	79,089	135
Furniture & Appliance	4,567	8.7%	75,008	61
Building Materials	3,031	5.8%	46,213	66
Auto Dealers & Supplies	4,628	8.8%	54,474	85
Service Stations	7,055	13.4%	8,628	818
Other Retail Stores	5,638	10.7%	54,233	104
Total Retail Stores	\$52,614	100.0%	362,045	\$145
Percent of City	30.9%		22.5%	153.0%

*Includes San Carlos Plaza

**4th quarter 1986 through 3rd quarter 1987

***Total sales for grocery stores is estimated at three times
taxable sales

Source: City of San Carlos

through traffic does tend to offset the "leakage" of local resident spending to nearby communities which offer strong retail centers.

The Industrial Area

Half of the sales and nearly 60 percent of the retail square footage in San Carlos are in the industrial area east of Old Country Road (Table V-7). Retailing in this area is dominated by the furniture, appliance, building materials and hardware sectors. These sectors account for 77 percent of the sales and 74 percent of the square footage of this area. Anchored by Levitz and Brueners, major furniture outlets, this area clearly serves an area much larger than San Carlos. Its trade area probably includes most of San Mateo County and the northern part of Santa Clara County as well. This area's regional draw will be reinforced by the completion of the 102,100 square feet Home Depot store which is now in the development review process.

Summary By Area

Retailing in San Carlos clearly lacks strength in many of the sectors which are important sales tax generators: apparel stores, general merchandise outlets, specialty shops and automobile dealerships. However, it does have several strengths which are highlighted below:

- o The Downtown Area is well located to provide convenience goods such as groceries, drugs, liquor and sundries to the local resident population; and this population is one of rapidly increasing affluence.
- o The El Camino Corridor captures service station and restaurant sales from motorists driving through San Carlos, and this capture serves to partially offset the dollars spent by local residents in neighboring communities.

Table V-4

CITY OF SAN CARLOS SALES VELOCITY BY SECTOR

Store Type	Sales* (\$1,000)	Sales Percentage	Square Footage	Sales Per Sq Ft
Apparel	\$5,852	3.4%	57,250	\$102
Gen Merchandise	1,436	0.8%	17,400	83
Drug	7,834	4.6%	40,425	194
Grocery**	28,013	16.4%	50,404	556
Liquor	1,369	0.8%	7,200	190
Restaurants	15,633	9.2%	125,462	125
Furniture & Appliance	25,194	14.8%	357,493	70
Building Materials	41,436	24.3%	504,807	82
Auto Dealers & Supplies	12,247	7.2%	161,039	76
Service Stations	8,947	5.2%	50,352	178
Other Retail Stores	22,580	13.2%	239,813	94
Total Retail Stores	\$170,541	100.0%	1,611,645	\$106

*4th quarter 1986 through 3rd quarter 1987

**Total sales for grocery stores is estimated at three times taxable sales

Source: City of San Carlos

Table V-7

INDUSTRIAL AREA SALES VELOCITY BY SECTOR

Store Type	Sales* (\$1,000)	Sales Percentage	Square Footage	Sales Per Sq Ft
Grocery** & Restaurants	\$2,442	2.8%	15,858	\$154
Furniture & Appliance	23,001	26.8%	248,665	92
Building Materials	43,288	50.4%	454,844	95
Auto Dealers & Supplies	1,634	1.9%	101,565	16
Service Stations	3,241	3.8%	39,937	81
Other Retail Stores	12,237	14.3%	89,839	136
Total Retail Stores	\$85,843	100.0%	950,708	\$90
Percent of City	50.3%		59.0%	95.0%

*4th quarter 1986 through 3rd quarter 1987

**Total sales for grocery stores is estimated at three times taxable sales

Source: City of San Carlos

- o With completion of Home Depot, the Industrial Area of San Carlos will have over 800,000 square feet of retail space in the furniture, appliance, building materials and hardware sectors. For these retail sectors, this area clearly serves a market much larger than simply San Carlos and adjacent cities.

Any future retail development strategy for San Carlos needs to build off these strengths.

SURVEY OF RESIDENTS AND BUSINESSES

The analysis of detailed sales and square footage information does provide considerable insight into San Carlos' retail strengths and weaknesses. However, we wanted to augment this secondary information with opinions of both San Carlos residents and business operators in the Downtown in order to ascertain an even more detailed understanding of this community and its future retail opportunities. To obtain that objective, ERA conducted two surveys. The first was a random sample mail survey of 500 San Carlos households, and the second was a hand distributed and collected survey of each retail outlet in the downtown.

Survey of San Carlos Residents

During February of 1988 ERA mailed a Shopping Pattern Survey to 500 randomly selected households in San Carlos. Over a two week period the firm received 135 responses. Rather than developing statistically precise information, the intent of the survey is to allow us to gain additional insight into the attitudes and behavior patterns of the people living in San Carlos. The important results of this survey are summarized below:

- o Sixty-four percent of the respondents had lived in San Carlos for more than ten years, indicating a stable community.

- o Forty-two percent of the head of household members are in managerial or professional occupations, and another 27 percent are retired.
- o Of the 171 people in the respondent households who work 20 or more hours per week, 71.3 percent work in the following five cities: San Francisco (21.1 percent), San Carlos (17.5 percent), Palo Alto (12.9 percent), San Mateo (9.9 percent) and Redwood City (9.9 percent). The balance work in other portions of San Mateo or Santa Clara County and in Alameda County.
- o As shown in Table V-8, local residents spend about 35 percent of their retail dollars in San Carlos. Of the estimated \$176 million in total spending, \$114 million go to retailers in other communities. The highest local capture percentages are in the food and drug sector (69.0 percent) and the building materials and hardware sector (53 percent). The lowest capture percentages are in automobile dealers (9.7 percent) and the apparel sector (14.7 percent). For apparel, specialty items and general merchandise, the leakage goes largely to San Mateo, Redwood City and Palo Alto in descending order. For restaurants it is to San Mateo, Palo Alto and San Francisco. For automobile sales and service, the loss is largely to Redwood City and Burlingame.
- o In terms of additional retail outlets most needed in the city, respondents overwhelmingly indicated grocery store or supermarket (45.5 percent) and department store (40.9 percent). There was also significant interest in restaurants (11.4 percent), discount store (8.0 percent) and home improvement center (9.1 percent).
- o Convenience and friendly atmosphere were the reasons most often indicated for why they shop in San Carlos.

Table V-8

WHERE SAN CARLOS RESIDENTS SPEND THEIR MONEY

Retail Sector	Total Spending By Residents	Percent In San Carlos	Dollar Leakage	Benefitting Cities		
				1st Rank	2nd Rank	3rd Rank
Apparel	\$8,840,000	14.7%	\$7,540,520	San Mateo	Palo Alto	Redwood City
General Merchandise	28,236,000	28.3%	20,245,212	San Mateo	Redwood City	Palo Alto
Food Drug & Liquor	32,994,000	69.0%	10,228,140	Redwood City	Belmont	San Mateo
Restaurants	18,564,000	36.8%	11,732,448	San Mateo	Palo Alto	San Francisco
Specialty Stores	19,266,000	29.8%	13,524,732	San Mateo	Redwood City	Palo Alto
Furniture/Appliance	11,310,000	21.5%	8,878,350	San Mateo	Redwood City	San Francisco
Building Materials	10,192,000	53.0%	4,790,240	Redwood City	- -	- -
Automobile Dealers	31,460,000	9.7%	28,408,380	Redwood City	Burlingame	San Mateo
Automobile Service	14,820,000	39.2%	9,010,560	Redwood City	Burlingame	- -
Total	\$175,682,000	34.9%	\$114,368,982			

Source: Economics Research Associates

- o Insufficient selection and variety are the reasons local residents give for not shopping more often in San Carlos. Respondents did not indicate that parking was a very significant constraint to shopping locally more often.
- o The respondent household has a median income of just over \$50,000 and a median head of household age of just over 50 years.
- o When asked what can be done to encourage local residents to shop or dine in San Carlos more often, the respondents indicated modernize (21.4 percent), increase selection (14.5 percent), longer hours (9.9 percent), lower prices (10.7 percent) and better restaurants (8.4 percent).

Survey of Downtown Retail Outlets

During the time period of the mail survey of San Carlos households, ERA staff also distributed, by hand, a Downtown Retail Survey to approximately one hundred retailers in the downtown area. The same staff member returned one week later to collect these surveys, and those retail managers who did not have the questionnaires completed were provided with a stamped and self addressed envelop for return by mail to ERA. In total 48 surveys were returned to us, and the significant findings from this survey are highlighted below:

- o Of the 48 responses, nearly one-half were speciality stores and one-quarter were grocery stores or restaurants.
- o Just over half of the businesses have been in San Carlos for more than ten years.
- o Slightly over one-quarter (28.6 percent) of the businesses had sales under \$75 per square foot per year, one-quarter (25.0 percent) had sales between \$75 and \$125, but over one-fifth (21.4 percent) had sales over \$300 per square foot per year. With a few exceptions, Downtown San Carlos is not a particularly strong retail area.

- o The trade area served by this downtown is reasonably limited. One third (31.9 percent) of the businesses indicated their customers largely come from San Carlos only, 29.8 percent indicated they draw from the Mid-Peninsula, 27.7 percent responded that their customers come from all of San Mateo County, and 10.6 percent draw from the entire Bay Area.
- o An overwhelming majority (89.1 percent) indicated they were satisfied with their present location.
- o The businesses in this area indicated considerable pessimism about their future: 20.9 percent indicated that higher rents or new competition will force them out of business, 32.6 percent were concerned that the business environment was becoming increasingly competitive, 25.6 percent expected their sales growth to keep pace with inflation, 16.3 percent expected their volume growth to be somewhat faster than inflation, and 4.7 percent expected business to grow dramatically.
- o The clientele of these businesses breaks down into 68.0 percent local area residents, 18.3 local area employees and 13.7 percent tourists and visitors.
- o The respondent businesses average 2,285 square feet in size, four full time and five part time employees.
- o When asked what types of retail outlets are missing in Downtown San Carlos, the top four responses were specialty stores, bookstore, better restaurants and children's clothing store.
- o When asked what is the most serious problem of doing business in the downtown, the overwhelming response was parking. This view that parking is a serious problem is very different from the view presented by the residents of San Carlos.

- o When asked about the strengths of doing business in Downtown San Carlos, the responses were friendly hometown atmosphere and nice people.
- o When asked what the City could do to improve the retail business climate in San Carlos, the business operators wanted the City to improve parking, increase the number of shops, repair sidewalks, beautify downtown, upgrade storefronts and provide cleaner streets.

DETAILED EXAMINATION OF MARKET OPPORTUNITIES

The foregoing research and analysis, including sales information, survey of retail inventory, survey of San Carlos households and survey of downtown businesses, all contribute to our understanding of retailing in San Carlos. This understanding enables us to perform the detail market analysis described below.

Trade Area Population and Income

Due to road patterns and the location of freeway ramps, the trade area served by retailers in San Carlos extends beyond the city itself the southern portion of Belmont, the northern portion of Redwood City and some unincorporated areas of San Mateo County. This trade area currently has an estimated 61,000 people and 28,000 households (see Table V-9). Like much of San Mateo County, although the number of people in the trade area is not increasing rapidly, household incomes are moving up very quickly. According to estimates provided by Urban Decision Systems, a computerized data service which builds its estimates from Bureau of Census data, the median household income in this trade area has increased from \$24,625 in 1980 to \$37,196 in 1987. It is projected to grow to \$47,214 in 1992. For the city of San Carlos the growth pattern is nearly identical.

Table V-9

POPULATION AND INCOME IN SAN CARLOS'S TRADE AREA

	1980	1987	1992
POPULATION			
San Mateo County	588,164	620,117	639,000
Belmont	24,505	25,053	25,500
Redwood City	54,965	59,718	62,000
San Carlos	24,710	26,441	27,600
Three City Total	104,180	111,212	115,100
San Carlos Trade Area	57,225	60,711	62,725
HOUSEHOULDS			
San Mateo County	225,201	244,141	251,575
Belmont	9,708	10,010	10,189
Redwood City	22,966	25,304	26,271
San Carlos	10,145	11,017	11,500
Three City Total	42,819	46,331	47,951
San Carlos Trade Area	26,581	28,377	29,319
MEDIAN HOUSEHOLD INCOME			
San Mateo County	\$23,175	\$34,853	\$45,665
Belmont	26,315	40,663	50,620
Redwood City	19,454	28,320	36,922
San Carlos	25,192	37,575	48,248
Three City Total	22,369	33,187	42,556
San Carlos Trade Area	24,625	37,142	47,141

Source: Urban Decision Systems, Bureau of Census
and State Dept. of Finance

Expected Per Capita Retail Expenditures

The population and income of any trade area to a very large extent shapes its retail demand. Other factors, such as the proximity to areas of retail concentration, the number of children or elderly in the population, also must be considered. In Table V-10 we have computed the expected per capita retail sales by type of outlet for San Mateo County and have estimated the same for the San Carlos trade area. The estimate for San Carlos considers both the higher median incomes and the higher percentage of elderly in the city as compared to San Mateo County.

Retail Demand Model

Using all of the foregoing information as background, ERA has developed a detailed computer model for analyzing additional retail opportunity in San Carlos. Although seemingly very mechanical in nature, this model actually reflects a long series of professional judgements concerning the number of people in the trade area, per capita retail spending by retail category, the projected population and income growth of this trade area, the city's current capture of trade area resident spending, the percentage of sales to residents outside the trade area by type of retail outlet, how those capture rates are likely to change with the completion of Lucky's and Home Depot and in the future as various economic development strategies are implemented in San Carlos, and the expected sales velocity per square foot per year for different types of retail space. This model allows us to compile these judgements made on a disaggregated basis into an overall picture quickly and facilitates extensive sensitivity testing to determine dependence of overall conclusion on specific individual judgements.

After numerous iterations, ERA's final judgements on the retail demand versus supply balance in San Carlos are presented in Table V-11. This analysis, which already incorporates the completion of Lucky's and Home Depot, indicates that the best future opportunity for San Carlos is

Table V-10

PER CAPITA RETAIL SALES IN COUNTY AND TRADE AREA

	San Mateo County	San Carlos Trade Area
Apparel	\$332	\$340
General Merchandise	1,060	1,086
Drug Stores	222	245
Grocery Stores	911	934
Liquor Store	88	90
Restaurant	737	714
Furniture/Appliance	422	435
Building Material	381	392
Car Dealers/Supplies	1,468	1,210
Service Stations	570	570
Other Retail	719	741
Total Retail	\$6,911	\$6,757

Source: State Board of Equalization and ERA

Table V-11

SAN CARLOS RETAIL DEMAND ANALYSIS

Market Area	Per Capita Spending	1988	1990	1995	2000	2005
Resident Population		60,700	61,400	63,150	64,900	66,700
Income Growth Adjustment		1.000	1.030	1.110	1.196	1.288
Total Spending (\$1,000)	4.977	\$302,104	\$314,824	\$348,822	\$386,193	\$427,579
Comparison Goods	2.994	181,736	189,388	209,840	232,321	257,217
Apparel & Accessory	0.340	20,638	21,507	23,829	26,383	29,210
General Merchandise	1.086	65,920	68,696	76,114	84,269	93,299
Specialty & Misc	0.741	44,979	46,873	51,934	57,498	63,660
Furn & Appliance	0.435	26,405	27,516	30,488	33,754	37,371
Bldg & Hardware	0.392	23,794	24,796	27,474	30,417	33,677
Eating & Drinking	0.714	43,340	45,165	50,042	55,403	61,340
Convenience Goods	1.269	77,028	80,272	88,940	98,469	109,021
Food & Liquor	1.024	62,157	64,774	71,769	79,458	87,973
Drug & Proprietary	0.245	14,872	15,498	17,171	19,011	21,048
San Carlos Capture of Market Area Resident Spending						
Comparison Goods						
Apparel & Accessory		19%	21%	22%	23%	24%
General Merchandise		2%	10%	12%	14%	15%
Specialty & Misc		30%	30%	30%	30%	30%
Furn & Appliance		25%	25%	25%	25%	25%
Bldg & Hardware		48%	60%	59%	58%	57%
Eating & Drinking		25%	25%	26%	27%	28%
Convenience Goods						
Food & Liquor		44%	48%	48%	48%	48%
Drug & Proprietary		40%	40%	40%	40%	40%

Table V-11
(Continued)

SAN CARLOS RETAIL DEMAND ANALYSIS

	1988	1990	1995	2000	2005
San Carlos Sales Generated By Market Area Residents In (\$1,000)	\$80,756	\$95,786	\$108,116	\$121,477	\$136,464
Comparison Goods	36,624	47,205	53,788	60,774	68,642
Apparel & Accessory	3,921	4,516	5,242	6,068	7,010
General Merchandise	1,187	6,870	9,134	11,376	13,995
Specialty & Misc	13,494	14,062	15,580	17,250	19,098
Furn & Appliance	6,601	6,879	7,622	8,439	9,343
Bldg & Hardware	11,421	14,878	16,210	17,642	19,196
Eating & Drinking	10,835	11,291	13,011	14,959	17,175
Convenience Goods	33,298	37,291	41,318	45,744	50,646
Food & Liquor	27,349	31,091	34,449	38,140	42,227
Drug & Proprietary	5,949	6,199	6,868	7,604	8,419
Percentage Sales Generated From Outside Market Area					
Comparison Goods					
Apparel & Accessory	33%	33%	34%	35%	35%
General Merchandise	20%	20%	20%	20%	20%
Specialty & Misc	40%	40%	40%	40%	40%
Furn & Appliance	74%	74%	74%	74%	74%
Bldg & Hardware	73%	79%	78%	77%	76%
Eating & Drinking	32%	33%	35%	37%	38%
Convenience Goods					
Food & Liquor	20%	24%	23%	23%	22%
Drug & Proprietary	25%	25%	25%	25%	25%

Table V-11
(Continued)

SAN CARLOS RETAIL DEMAND ANALYSIS

		1988	1990	1995	2000	2005
Total Potential Sales In San Carlos		\$155,256	\$202,096	\$222,237	\$244,881	\$269,091
Comparison Goods		97,204	136,069	148,323	161,466	176,026
Apparel & Accessory		5,853	6,741	7,943	9,335	10,785
General Merchandise		1,483	8,587	11,417	14,220	17,494
Specialty & Misc		22,489	23,436	25,967	28,749	31,830
Furn & Appliance		25,389	26,458	29,315	32,456	35,934
Bldg & Hardware		41,990	70,847	73,680	76,705	79,983
Eating & Drinking		15,934	16,852	20,017	23,744	27,702
Convenience Goods		42,118	49,175	53,897	59,671	65,363
Food & Liquor		34,186	40,910	44,739	49,532	54,137
Drug & Proprietary		7,931	8,265	9,158	10,139	11,226
Total Supportable Square Footage in San Carlos	Sales Per SF	973,187	1,294,158	1,416,339	1,551,681	1,698,397
Comparison Goods	132	733,622	1,027,905	1,114,869	1,208,317	1,311,681
Apparel & Accessory	160	36,579	42,131	49,645	58,346	67,407
General Merchandise	165	8,989	52,042	69,195	86,184	106,022
Specialty & Misc	160	140,558	146,477	162,295	179,682	198,938
Furn & Appliance	120	211,575	220,483	244,293	270,466	299,449
Bldg & Hardware	125	335,921	566,772	589,442	613,640	639,865
Eating & Drinking	165	96,568	102,136	121,314	143,905	167,892
Convenience Goods	295	142,998	164,116	180,157	199,459	218,824
Food & Liquor	350	97,675	116,885	127,826	141,521	154,677
Drug & Proprietary	175	45,323	47,231	52,331	57,938	64,147

Table V-11
(Continued)

SAN CARLOS RETAIL DEMAND ANALYSIS

Additional Square Footage Supportable in San Carlos	Exist or Approved*	By 1990	By 1995	By 2000	By 2005
Comparison Goods	1,278,863	(250,958)	(163,994)	(70,546)	32,818
Apparel & Accessory	57,250	(15,119)	(7,605)	1,096	10,157
General Merchandise	17,400	34,642	51,795	68,784	88,622
Specialty & Misc	239,813	(93,336)	(77,518)	(60,131)	(40,875)
Furn & Appliance	357,493	(137,010)	(113,200)	(87,027)	(58,044)
Bldg & Hardware	606,907	(40,135)	(17,465)	6,733	32,958
Eating & Drinking	125,467	(23,331)	(4,153)	18,438	42,425
Convenience Goods	140,029	24,087	40,128	59,430	78,795
Food & Liquor	99,604	17,281	28,222	41,917	55,073
Drug & Proprietary	40,425	6,806	11,906	17,513	23,722
Total	1,544,359	(250,201)	(128,020)	7,322	154,038

*The existing or planned inventory includes 42,000 square feet for the new Lucky's supermarket and 102,100 square feet for Home Depot

much greater emphasis on providing higher quality convenience goods and services to a population of increasing affluence. This strategy should be complemented by selectively incorporating general merchandise or apparel stores into a primarily convenience shopping area. The specific strategies for the three different retail areas of the city are discussed after an examination of planning issues which affect the community's future retail and economic development.

PLANNING ISSUES

ERA's research, which included both interviews with developers and field investigation of San Carlos' retail areas, uncovered two areas which need some attention by the City's Planning Department, if the revitalization of the downtown and more economic development are the community's objectives. These are the development approvals process and parking requirements for new development or intensification of use.

Development Approvals

A detailed review of the City's development approval process was not part of our charge; however, ERA did interview approximately fifteen developers who had recently undertaken projects in San Carlos to learn from them if the approval process was inhibiting new development. Although the responses varied widely, we believe two constructive suggestions did emerge:

- o In San Carlos every project is taken in the order in which it was submitted regardless of the extent of work to be done. As a result, minor projects which could be handled quickly must wait until all projects before them have received approval and therefore can be delayed up to 60 days. Some ability to separate major and minor projects and to deal with the minor projects quickly appears to be in order.
- o A development coordinator, who is the initial point of contact and identifies all of the permits, approvals and fees

needed, and outlines the order in which they should be pursued and the departments which need to be contacted, would be very helpful.

Parking Requirements

The other area which needs attention is the City's parking requirements. It is ERA's opinion that San Carlos' parking requirements are dated and not conducive to the creation of vital pedestrian oriented shopping and dining areas. For example, San Carlos' current parking requirements for new restaurant development (one space per 60 square feet of seating area plus one space per 300 square feet of service area) translates into over ten spaces required per 1,000 of floor area, and this requirement is much higher than that found in neighboring communities such as San Mateo (3.9 spaces per 1,000 square feet), Menlo Park (6.0 spaces per 1,000 square feet) and Palo Alto (6.1 spaces per 1,000 square feet). The City should also consider separate standards for the downtown and the rest of the city; the rationale is because of the large public lots in the downtown a customer is able to park once and visit several establishments thereby providing the area with greater parking efficiency. Specific recommendations are presented in the discussion of economic development strategies in Section II.



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